

# **Budget Update**

**Greater Phoenix  
Chamber of Commerce**

**August 24, 2007**

**JLBC**

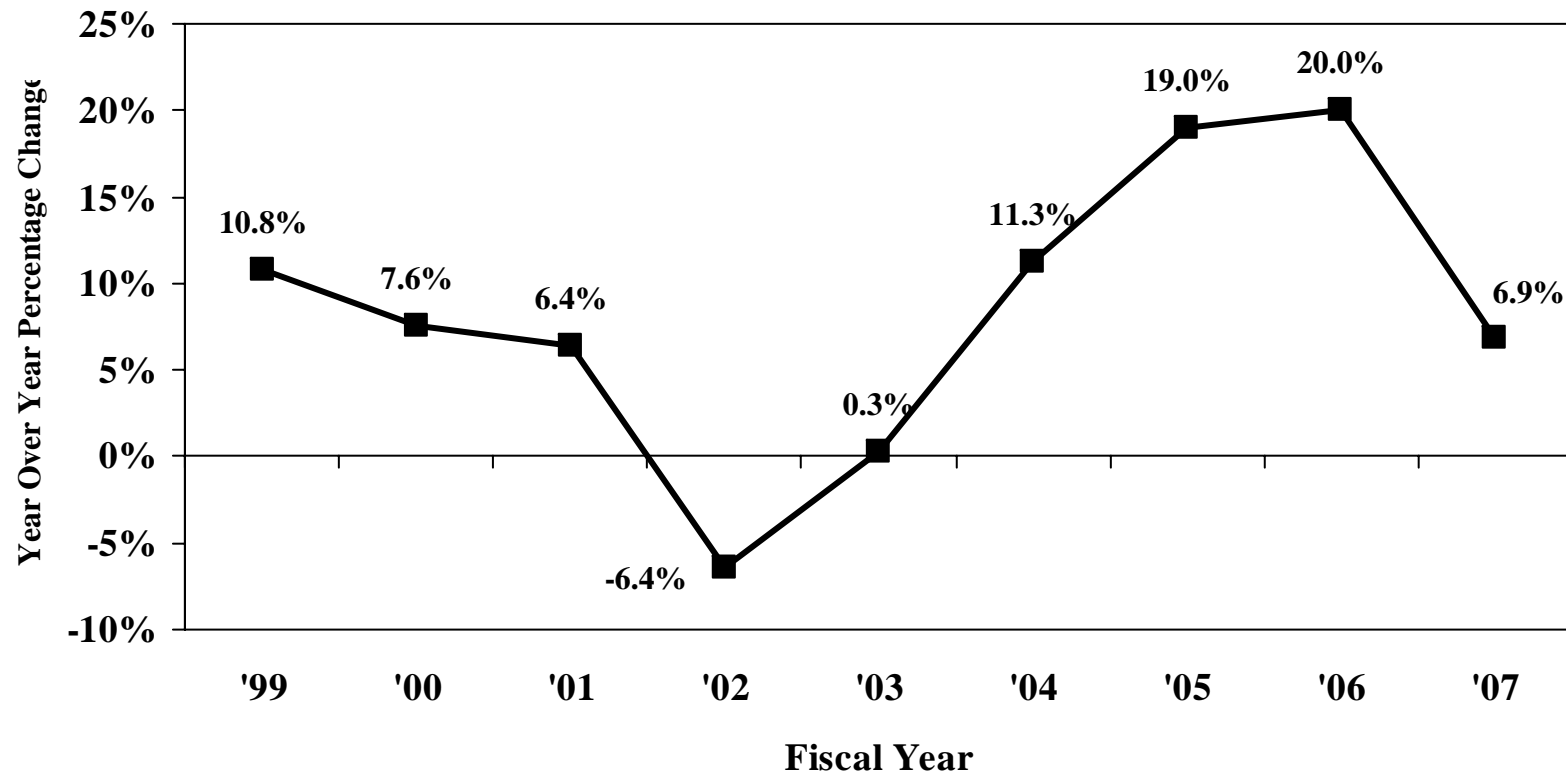
# **FY 2007 Revenue Collections**

## **Growth Rate Down Sharply from Previous 2 Years**

- Base revenue collections for FY 07 were 6.9% over FY 06 collections (net 4.9% after tax reductions).
- Down from 19% in FY 05 and 20% in FY 06.
- Collections were \$(225) million below forecast.

# General Fund Base Revenue Growth Rate

- Budgeted FY 2007 Growth Rate of 9.4% Significantly Higher Than Actual Growth of 6.9%
- Growth of 8.4% Required in FY 2008 to Meet Budgeted Revenues



\* Excludes statutory and one-time changes.

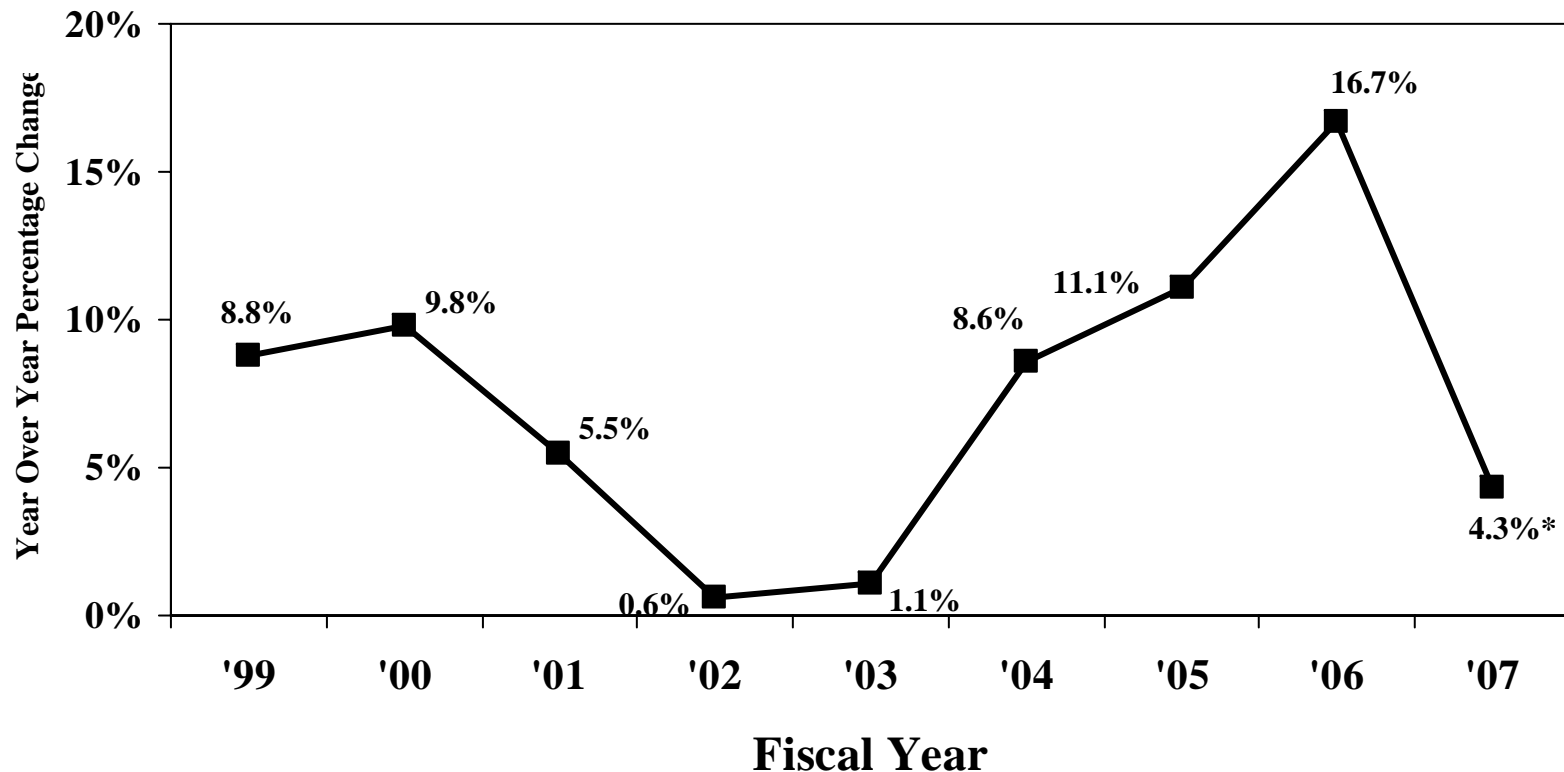
# **FY 2007 Revenue Collections**

## **Factors Behind Decreased Growth Rates**

- One-time FY 2006 gains were not repeated.
  - FY 2006 collections grew at a much faster rate than the underlying state economy. Personal income growth was approximately 9% for the period compared to 20% base revenue growth.
- Decline in construction activity.
  - Construction employment has declined over past several months.
  - Decline in building permits of over 30% - took awhile to feel impact.
- Slower national economy.
  - GDP growth lowest since 2002.
  - 1<sup>st</sup> quarter state and local tax collections grew at lowest level since 2003.

# Overall FY 2007 Sales Tax Growth Rate Was 4.3%

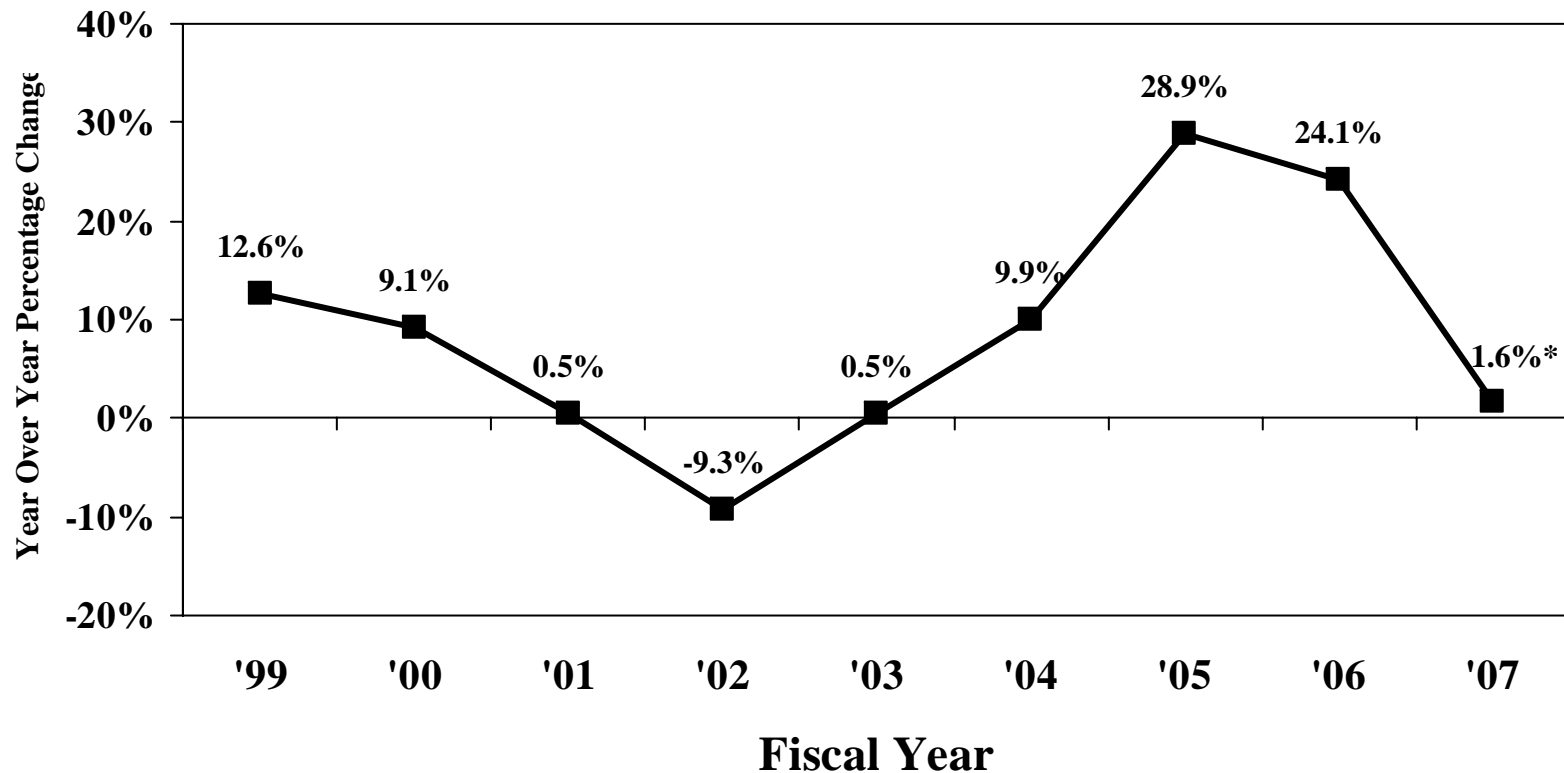
- Retail Growth of 3.7% Down From 12.4% in FY 2006
- Contracting Growth of 9.9% Down From 25.2% in Prior Year



\* The '07 increase of 4.3% includes the one-time impact of the revised June estimated payment threshold from \$100,000 to \$1.0 million enacted by the Legislature. Adjusting for the estimated one-time loss of \$(55.2) million, the '07 growth rate is 5.6%.

# Overall FY 2007 Individual Income Taxes Grew 1.6%

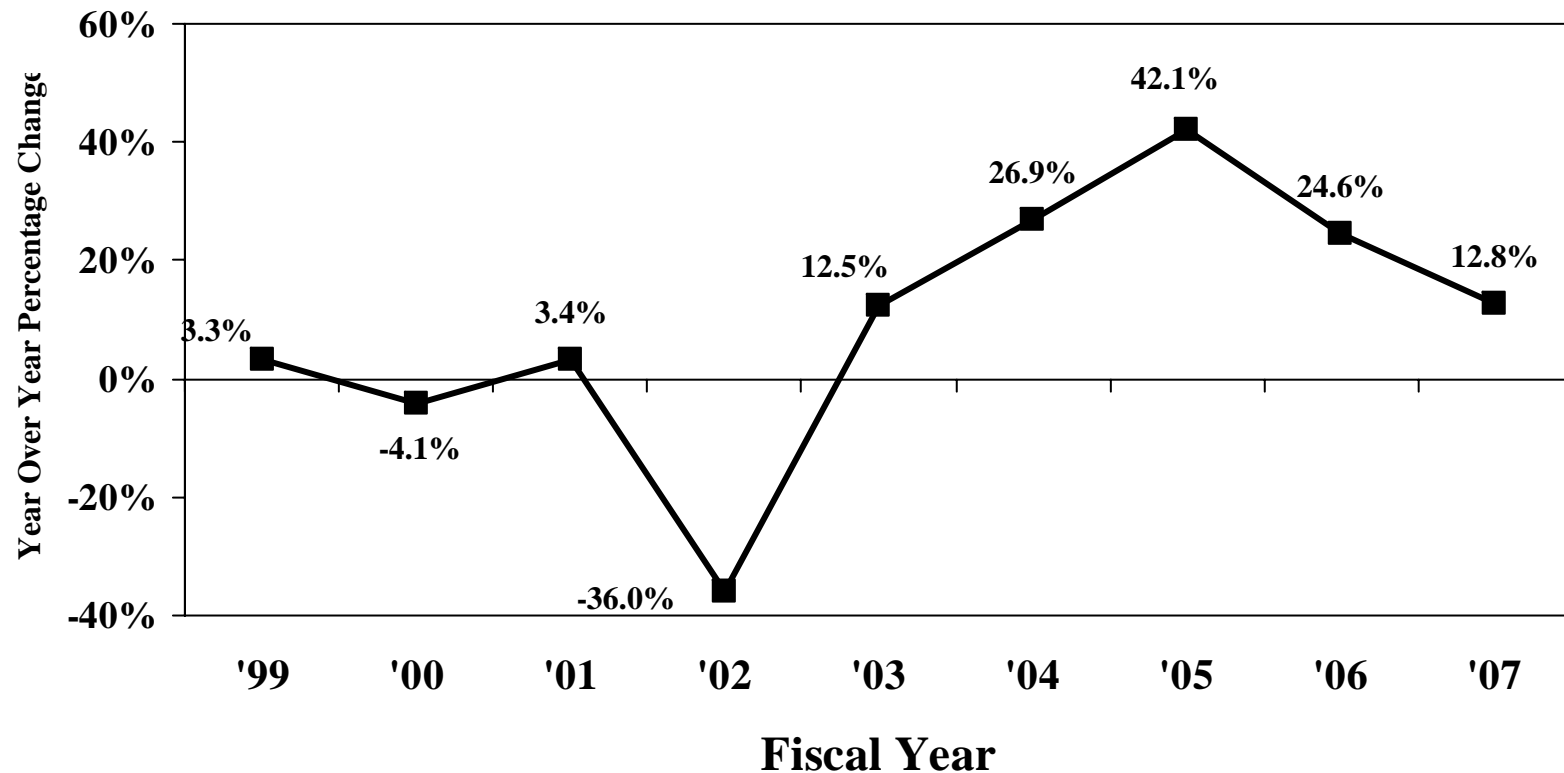
- FY 2007 Withholding Tax Collections Increased by 7.8% Over FY 2006, While Final Payments Grew by Only 3.9%



\* The '07 increase of 1.6% includes the impact of the 5% rate reduction passed by the Legislature, and implemented in tax year 2006. Adjusting for the rate reduction, '07 growth would have been 6.3%.

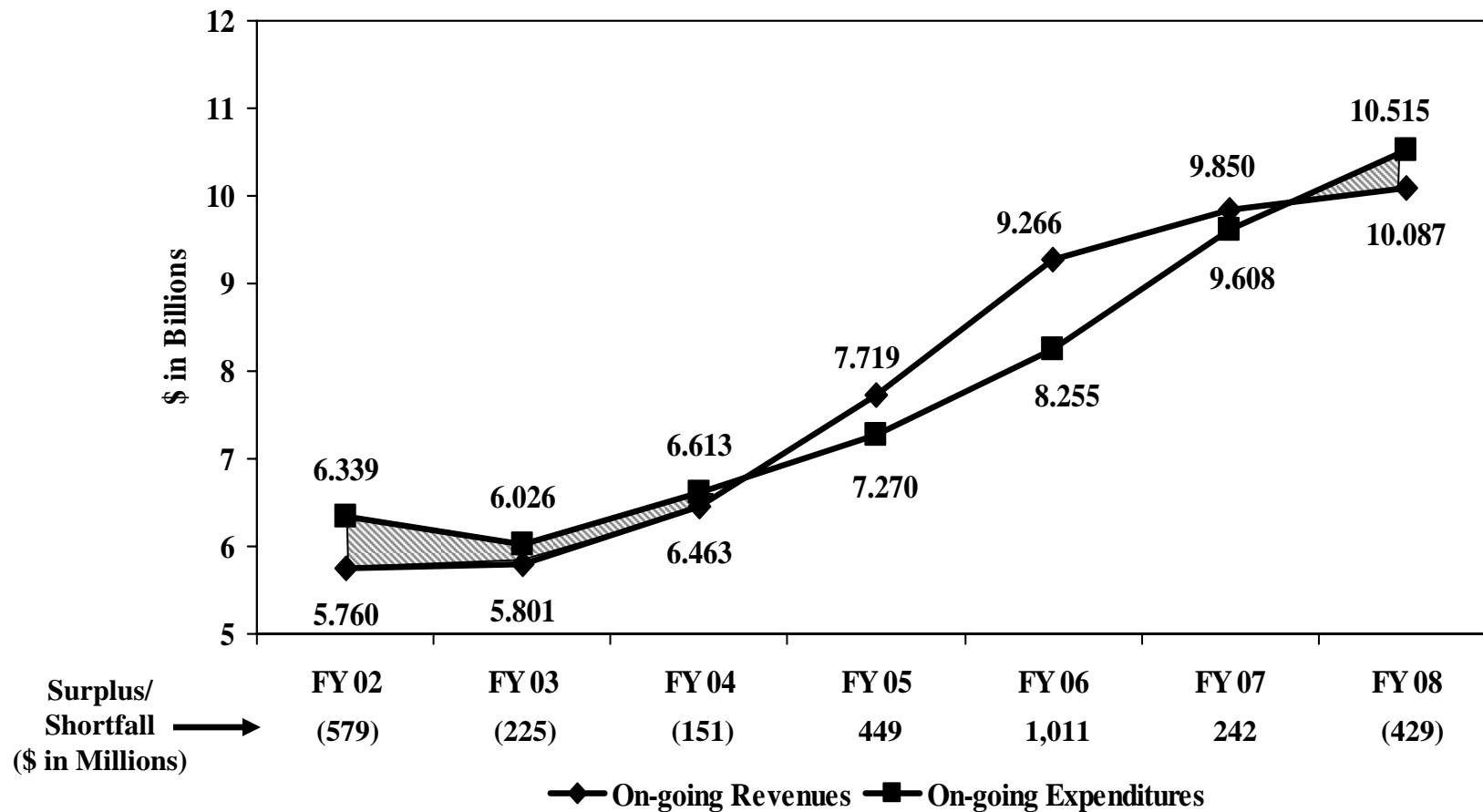
# **FY 2007 Corporate Income Taxes Grew 12.8%**

- Growth Well Below FY 2005 and FY 2006 Rates, But Corporate Remained the Fastest Growing Tax



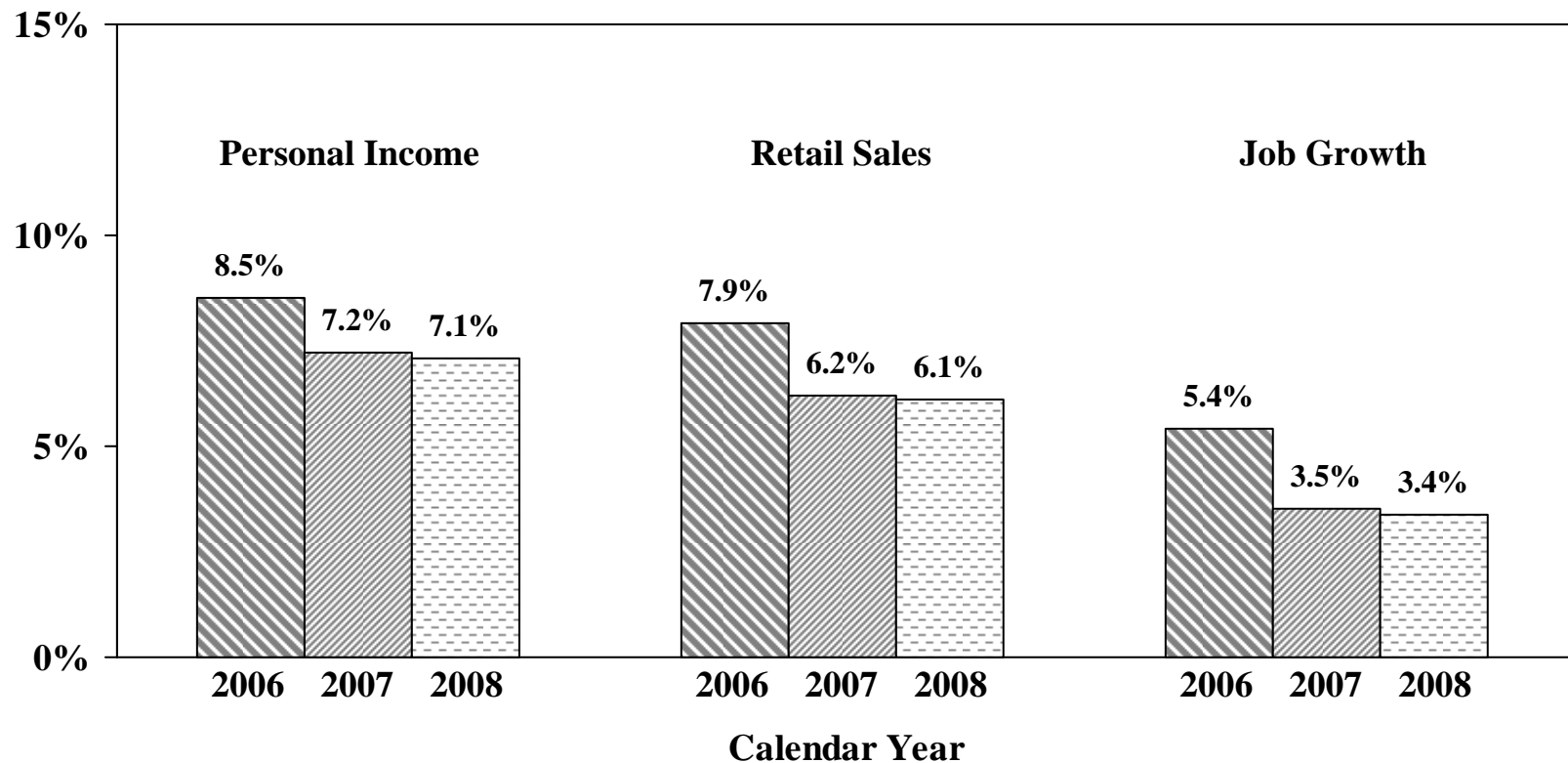
# Budget Returned to Structural Shortfall in FY 2008

- At Time of Enactment, Structural Shortfall Estimated at \$(429) M
- Structural Shortfall Likely to Become Cash Shortfall for FY 2008





# On A More Positive Note, Arizona Blue Chip Forecasts Remain Near Historical Averages



Source: July 2007 Blue Chip Forecast